

No. 22037

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

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PURER & COMPANY, a corporation, and PHILLIP PURER,  
*Appellants,*

*vs.*

AKTIEBOLAGET ADDO, a corporation, and ADDO MA-  
CHINE COMPANY, INC., a corporation,  
*Appellees.*

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APPELLEES' ANSWERING BRIEF.

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**FILED**

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The letter requested a license to use the patents. After further correspondence between Addo and appellants in the course of which appellants referred to “our proposed adding machine” which would be going into “very small” production “starting in May” of 1965, Addo granted appellants the requested license.

The statements in appellants’ letters were untrue. In June of 1965 appellants began importing and offering for sale in the United States a Japanese made copy of the Addo adding machine. It was not an adding machine whose “engineering and prototype” had been “just completed” by appellants; at the time the appellants wrote the letter of November 27, 1964, it had been manufactured for several years by Tokyo Denki (in English, Tokyo Electric Company or “TEC”), a subsidiary of the Japanese manufacturing combine, Toshiba. The engineering and prototype of the adding machine had been done by Addo. It had been copied by Toshiba. Appellants had contributed nothing to the engineering and prototype of the original or to its copying by Toshiba. It was not an adding machine whose design bore “some similarity” to Addo’s patents; it was an exact mechanical copy of the Addo adding machine, so exact a copy that its parts were interchangeable with the parts, both patented and unpatented, of the Addo machine. It was not a “proposed” adding machine whose limited production would begin in May of 1965; the copy had been in production in Japan for several years. Addo had first learned of the manufacture of

the Japanese copy in 1960 and had made efforts to have its production halted, efforts which Addo thought had been successful at the time appellants requested the license.

Promptly upon discovery of the true state of affairs, Addo, by letter dated July 22, 1965, rescinded the patent license and returned the consideration appellants had given for it. Nevertheless, appellants continued to import and sell the infringing copy of the Addo adding machine. Two of the infringing machines were purchased for Addo from appellants on October 7, 1965. On November 4, 1965, this lawsuit was commenced.

Trial without a jury commenced on February 7, 1967, before the Honorable William P. Gray. Five witnesses were called by Addo and their testimony consumed nearly three days. Appellants called no witnesses. Appellants rested at the completion of Addo's case. Following the trial the court entered findings of fact and conclusions of law in Addo's favor. After a further hearing to determine damages the court entered judgment enjoining appellants from infringing Addo's patents and awarded Addo \$36,905.17 in attorneys' fees and costs.

After appellee's motion for a new trial and to amend the findings of fact and conclusions of law had been denied, this appeal was taken.

## JURISDICTION.

Appellee Aktiebolaget Addo is a corporation organized and existing under the laws of Sweden with its principal place of business in Malmo, Sweden [Clk. Tr. pp. 2 and 535]. Addo is the owner of United States patents 2,854,190 and 2,985,363 which disclose inventions used in adding machines [Clk. Tr. pp. 3 and 535].

Appellee Addo Machine Company is a corporation organized and existing under the laws of the State of New York with its principal place of business in New York City [Clk. Tr. pp. 3 and 535]. It is the exclusive United States importer of Addo manufactured adding machines [Rep. Tr. p. 26] and has exclusive right to the use of the trade name Addo in the United States [Rep. Tr. p. 166].

Appellant Purer & Company is a corporation organized and existing under the laws of the State of California with its principal place of business in Los Angeles, California [Clk. Tr. pp. 3, 198 and 535]. Appellant Phillip Purer is a citizen of California [Clk. Tr. pp. 3, 198 and 535].

Jurisdiction of the United States District Court was based on diversity of citizenship of the parties, 28 U.S.C.A. §1332, and upon the ground that the cause of action for patent infringement and related unfair competition arises under the laws of the United States, 28 U.S.C.A. §1338.

The Court of Appeals has jurisdiction because this is a timely appeal taken from a final judgment of the District Court, 28 U.S.C.A §1291.



## STATEMENT OF THE CASE.

Appellees submit their own statement of the case because the statement of the case set forth in appellant's opening brief virtually ignores the fraudulent conduct of appellants which was the basis of the judgment below.

### Discovery and Pretrial.

Addo and Addo Machine Company filed their complaint on November 4, 1965, in the Central District of California charging appellants Phillip Purer and Purer & Company with patent infringement, trademark infringement, and unfair competition. The relief sought was a preliminary injunction, a permanent injunction and damages, including attorneys' fees [Clk. Tr. pp. 2-29].

Appellants answered on November 25, 1965, denying the patents disclosed an invention, denying the patents were legally issued, denying that appellants infringed such patents and affirmatively alleging a license from Addo to appellants permitting appellants "to incorporate the features" of Addo's patents [Clk. Tr. pp. 198-199].

On December 21, 1965, the Honorable Albert Lee Stephens, Jr., entered findings of fact and conclusions of law [Clk. Tr. p. 239] and issued a preliminary injunction [Clk. Tr. p. 249] prohibiting appellants from importing or selling adding machines containing the inventions disclosed in Addo's patents and prohibiting appellants from advertising or representing that they were licensed by Addo to import or sell such adding machines.

Appellants initiated discovery proceedings on November 8, 1965, by noticing the depositions of Gunnar Agrell, president of Addo, and George Agrell, president of Addo Machine Company. The deposition of Gunnar Agrell was taken on December 30, 1966, at the United States Consulate in Stockholm, Sweden. Appellants did not take the deposition of George Agrell.

Addo commenced discovery proceedings by notice of the deposition of Phillip Purer served February 23, 1966. Mr. Purer's refusal to answer certain questions and to produce subpoenaed documents at his deposition resulted in a court order of April 11, 1966, requiring that the questions be answered and the documents be produced. This order and a subsequent order were disobeyed and resulted in the imposition of \$500.00 sanctions on appellants pursuant to F.R. Civ. P. 37(b)(2). The order imposing sanctions was affirmed on a prior appeal. (Court of Appeals Order of July 6, 1967, Docket No. 21292.)

During the course of discovery appellants admitted the validity of the patents in question and admitted that the adding machines imported and sold by appellants infringed such patents. These admissions were incorporated in the pretrial order [Clk. Tr. pp. 535-536].

At the pretrial conference the trademark infringement cause of action was withdrawn on the ground that discovery had produced no evidence of trademark infringement by appellants; appellants had only used the name Addo in their advertising of the infringing machine. The court ordered the trademark infringement cause of action, the second cause of action in the complaint, dismissed without prejudice [Rep. Tr. of December 12, 1966, p. 13].



## **Trial.**

Trial commenced on February 7, 1967, before the Honorable William P. Gray. Evidence introduced at trial established the following:

### **Addo and Addo Machine Company.**

Addo is a Swedish corporation founded in 1918 and engaged in the manufacturer of adding machines. Addo began manufacturing a 10 key adding machine in 1935 [Rep. Tr. p. 26]. In the course of improvements in the 10-key adding machine, Addo has made several inventions including two which resulted in United States patent 2,854,190 for which application was filed on February 1, 1955, and United States patent 2,985,363 for which application was filed on March 16, 1956. Patent 2,854,190 describes an invention for retarding the start of a function cycle until the carriage of an adding machine has stopped moving [Ex. 1]. Patent 2,985,363 describes a shock absorbing mechanism to reduce vibrations and machine motion during high speed operation [Ex. 2]. The principal model adding machine manufactured by Addo bore the model number 341E [Rep. Tr. p. 27].

Worldwide sales of products manufactured by Addo and its its foreign wholly-owned subsidiaries amounted to more than \$122 million in the years 1962 through 1966, inclusive. Research and engineering work carried out by Addo during the years 1962 through 1966 cost over \$4 million [Ex. 4].

Addo Machine Company is the exclusive importer into the United States and distributor in the United States of the products manufactured by Addo and has exclusive right to the use of the name Addo in the

United States [Rep. Tr. pp. 26 and 166]. The wholesale value of sales of Addo manufactured products in the United States by Addo Machine Company in the five years commencing February 1, 1962, and ending January 31, 1967, was in excess of \$19 million. Addo Machine Company's expenditure for advertising and publicity in the same period was in excess of \$430,000 [Ex. 48]. Addo Machine Company has done extensive advertising in trade magazines and national circulation magazines such as *Time* and *Fortune* [Rep. Tr. p. 269].

Addo Machine Company has developed a nationwide network of approximately 800 dealers who sell and service Addo adding machines [Rep. Tr. p. 265]. Adding machine dealers selling the Addo adding machine in the United States maintain substantial stocks of spare parts and of tools specifically designed for the servicing and repair of Addo adding machines. Addo Machine Company has conducted numerous courses designed to instruct mechanics employed by adding machine dealers in the servicing and repair of Addo adding machines [Rep. Tr. p. 264].

### Copy of Addo's Adding Machine.

In 1960, Addo learned that one of the subsidiaries, Tokyo Denki, of a Japanese manufacturing combine, Toshiba, was producing an adding machine that was virtually an exact mechanical copy of Addo's adding machine [Rep. Tr. p. 36]. Addo was informed that Toshiba gave it the model number BC4001 [Ex. 7]. Addo objected to this copy and efforts to halt the production of the copy were made through Addo's sales representative in Tokyo, the Dutch firm of Lindeteves-Jacoberg N.V., through the Swedish Embassy in Japan and

through the Swedish Export Association [Rep. Tr. pp. 40-42]. Addo was informed that the Japanese Ministry of Foreign Affairs had stated to the Swedish Embassy in Tokyo on October 8, 1963, that Toshiba maintained its adding machine was the product of independent research and was not a copy of the Addo adding machine [Ex. 13].

Addo had previously requested its Japanese sales representative to purchase one of the Toshiba copies and send it to Addo which had been done [Rep. Tr. pp. 43-44]. The mechanism of the adding machine received by Addo was virtually an exact copy of the Addo model 431E adding machine, including the patented parts. Detailed photographs comparing the two machines were made by Addo in late 1963 [Exs. 12 a-h] and these photographs were sent to Addo's sales representative in Japan [Rep. Tr. p. 58]. Addo was thereafter informed that the Japanese Ministry of Foreign Affairs had reported to the Swedish Embassy in February of 1964 that Toshiba would soon put on sale an adding machine of its own design and that production of the infringing copy of the Addo adding machine, the Toshiba model BC4001, would be discontinued as soon as feasible [Ex. 16].

### **Appellants' Request for Patent License.**

By a letter dated November 27, 1964, appellants wrote Addo requesting that appellants be granted a license to use Addo's United States patents 2,854,190 and 2,985,363 [Ex. 20]. The letter stated:

“Our company has just completed the engineering and prototype of an Adding Machine to be marketed in the United States. After a close in-



vestigation of the existing patents in the United States, we find that there exists some similarity in our design and your patent numbers 2,985,363 and 2,854,190.

“As we are not a company to engage in long litigation [sic], this investigation of patents is a part of our procedure. At this time we are not questioning the validity of these patents, but have chosen to contact you and request your approval. We would be willing to enter into a nominal licensing arrangement with your company if it would be feasible to do so.

“Our program will be status quo until we hear from you. Please inform me as soon as possible as to what you decide.

Very truly yours,

PURER & COMPANY

/s/ Phil Purer

Phillip Purer, President”

The letterhead stationery on which the request was made bore at the top the legend PURER & COMPANY, followed by a fanciful crest containing the double letter P and gave the address 11221 West Pico, Los Angeles, Calif. At the bottom of the stationery was a picture of a long, low building beneath which appeared the phrase “New Modern Facility in Ohito.” The picture of the building was printed in tones light enough that typing or writing over it would be easily legible. On the face of the building in small print four points or less in size appeared the blurred legend “TEC” or “TEO.”

By letter dated December 17, 1964 [Ex. 21], Addo answered appellants' request, stated that it would be willing to grant a license to use the two patents and set forth the terms and conditions on which such license would be granted.

Appellants replied by letter dated December 21, 1964 [Ex. 22], indicating that they would, with a few exceptions, agree to the terms outlined in the letter of December 17. The letter included the following statements:

“In reply to your letter of December 17th, in reference to a license on our proposed adding machine . . .

We propose to manufacture approximately 10,000 machines per year and will be willing to pay your set fee of .30¢ per unit, as was indicated in your letter. We also note there are several other patents that you have on this machine which we are not sure that we will use. This we expect to be included in the license agreement drawn up by you. In other words, we expect to have full coverage from your company on our product. . . .

“We would also like the agreement made in the name of Purer & Company or ‘the manufacturer for Purer & Company’.”

(As mentioned before, Addo manufacturers adding machines employing numerous inventions for which Addo is the holder of patents. However, the Addo adding machine in question, the Addo model 341-E adding machine, and the Japanese copy of it incorporate only the two patented devices previously enumerated.)

Due to delays in drafting the text of the license agreement and in having it translated into English, it

was not until March 17, 1965, that Addo sent a license agreement to appellants for signature. Appellants replied on April 14, 1965 [Ex. 25], acknowledging receipt of the license but stating in part:

“The agreement is acceptable in its present form, with one exception being Paragraph Number 9 in which you state that the minimum royalty amount is to be \$3,000.00. This, we would like you to change, as our production will be very small in which we expect to produce approximately 300 machines per month starting in May of this year.”

A reduction in the minimum royalty to \$1,500.00 a year was requested.

On May 18, 1965 [Ex. 27], Addo replied that it would accept the lower minimum royalty figure and on June 2, 1965 [Ex. 28], appellants wrote Addo enclosing a check in the sum of \$1,500.00 and signed copies of the patent license [Ex. 26] approved by “the Officials of our Company and the Manufacturer of our product.” The license was signed only by Phillip Purer, not by any manufacturer for appellants.

### **Appellants’ Importation of Japanese Copy.**

The adding machine appellants then proceeded to offer for sale in the United States [Exs. 33, 67 and 70] was the copy of the Addo adding machine made by Toshiba, production of which, when last heard of by Addo, was to be discontinued as soon as feasible. It was not a machine the engineering and prototype of which had just been completed as represented in appellants’ letter of November 27, 1964. It was not an adding machine which bore only “some similarity” of design to Addo’s United States patents 2,985,363 and



2,854,190 as represented in appellants' letter of November 27, 1964. It was not an adding machine which might or might not employ other inventions on which Addo had patents, as represented in appellants' letter of December 21, 1964. It was not an adding machine which was going to begin "very small" production in May 1965, as represented in appellants' letter of April 14, 1965. It was the Toshiba model BC 4001 adding machine manufactured by Toshiba's subsidiary, Tokyo Denki. The case had been remodeled and the model number changed to BC 4011. However, it remained a virtually exact copy of the mechanism of Addo 341-E adding machine.

### **Addo's Discovery of Appellants' Fraud.**

Addo learned of this state of affairs in the following manner:

In late May or early June, Addo Machine Company's western wholesale distributor received inquiries from adding machine dealers as to whether it was true that an inexpensive, Japanese copy of an Addo adding machine was to be sold in the United States pursuant to a license from Addo [Rep. Tr. pp. 321-323, Ex. 29]. The inquiries were relayed to Addo Machine Company which, in turn, relayed them to Addo. Addo answered by a letter to Addo Machine Company dated June 9, 1965 [Ex. 30], stating:

"... we have no license agreement whatever with any Japanese firm. The copy of our product that is made in Japan is not manufactured under any license from us."

Within a day or two of receiving this letter, Addo Machine Company's dealer sales manager reported

that orders were being solicited by California Typewriter Exchange at a business machine trade show in Chicago for an adding machine claimed to be manufactured in Japan under license agreement from Addo [Rep. Tr. pp. 274-275, Ex. 31]. Brochures were distributed at the trade show with a picture of the machine which bore the name "TEC" and identified it as the Model AM 7001 [Ex. 33].

On June 14, 1965, Addo Machine Company wrote California Typewriter Exchange demanding that it refrain from stating that the Japanese machine was manufactured under license agreement with Addo [Ex. 31] and enclosed a copy of the letter from Addo of June 9 [Ex. 30] denying that there was any licensed Japanese copy. Appellants replied on June 21, 1965 [Ex. 36], to Addo Machine Company's letter to California Typewriter Exchange and stated that California Typewriter Exchange was appellants' distributor and was introducing the TEC Model AM 7001 adding machine for sale in the United States in accordance with "a license agreement between A. B. Addo Company and the Purer & Company . . ."

On June 17, 1965, Addo Machine Company received the brochure [Ex. 33] for the TEC AM 7001 adding machine being given out at the trade show. A copy of the brochure was sent immediately to Addo [Ex. 32]. The brochure bore the name of appellant Purer & Company, which gave Addo its first knowledge that appellants were connected with the adding machine displayed at the Chicago trade show which was claimed to be a licensed Japanese copy of an Addo adding machine.

As previously mentioned, Addo had been engaged in attempts to halt the manufacture of the copy of its adding machine made by Toshiba and Toshiba's subsidiary Tokyo Denki. Addo had not heard the name Tokyo Electric Company, or its acronym "TEC" until it received the brochure [Rep. Tr. p. 251]. The brochure included a large color photograph of the TEC 7001 adding machine. Although the case of the machine had been redesigned and was not similar in external appearance to that shown in the brochure for the earlier Toshiba copy [Ex. 7] the adding machine illustrated in the brochure did have a symmetrical keyboard which was a feature of Addo adding machines and the Toshiba copy [Rep. Tr. p. 115]. (A symmetrical keyboard is one with the subtraction key to the left of the centrally located numeral keys and the addition key to the right. It facilitates either left-hand or right-hand operation of the keyboard [Rep. Tr. p. 247].)

The brochure being distributed at the Chicago trade show with its picture of the machine with a symmetrical keyboard and the name Purer & Company on it and appellants' letter of June 2, 1965, enclosing the fully executed license agreement and the initial payment were received by Addo within a few days of each other. On June 21, 1965, Addo wrote appellants [Ex. 34] stating in part:

"The fact is that we have been informed that you are selling an adding machine called TEC. As far as we know, this machine is a copy of our ADDO-X machine manufactured in Japan by a subsidiary company of Toshiba.



“If it is in this machine Toshiba is making use of the patent for which you will get a license according to the agreement, you have acquired this license by giving us completely misleading information.”

In the June 21 letter to appellants, Addo also requested clarification of what it regarded as deceptively misleading advertising in the brochure put out by Purer & Company. Addo had widely distributed a brochure [Ex. 5] for its own adding machines on which was prominently displayed the phrase “Machines for millions” and in which it was stated that Addo was building its second million business machines. The brochure for the TEC Model AM 7001 adding machine contained the prominently displayed statement, “Over 1 million satisfied users.” Addo’s letter to appellants of June 21, 1965, called attention to this claim and pointed out its incorrectness, “as naturally the TEC machine has not been sold in a quantity of over one million.”

Purer & Company replied by letter dated June 25, 1965 [Ex. 35], stating that the manufacturer for appellants was TEC, a subsidiary of Toshiba and that this information had never been requested by Addo or withheld by appellants. The letter further stated that appellants had offered no misleading information in the past and would not do so in the future. The letter included the statement:

“In our leaflet we have stated ‘over one million satisfied users’. I am sure that the amount has

been slightly exaggerated, but is not detrimental to anyone. You will also note in our leaflet that we have never mentioned your fine name or the fact that we are operating under a license agreement, or have we made any indication to the public in disclosing our arrangements.”

On July 1, 1965, Addo again wrote appellants [Ex. 37] demanding to know if appellant Purer & Company was fully or partially owned by Toshiba and stating that the question of Toshiba’s copying the adding machine had been taken up with the Japanese Ministry for Foreign Affairs and that Addo had been informed that Toshiba planned to discontinue production of the copy “as soon as feasible.”

Appellants replied on July 12, 1965 [Ex. 38], that “Purer & Company is a privately owned corporation.” It denied any knowledge of prior negotiations or business relations between Addo and Toshiba.

In early July Addo also received a copy of a Dun & Bradstreet report [Ex. 39] giving a credit rating to Purer & Company. In its evaluation of Purer & Company’s operations, the Dun & Bradstreet report stated that Purer & Company was a California corporation organized under the name *Tokyo Electric Company International* and that the name had been changed to *Purer & Company* on December 11, 1964, i.e., after the license had been requested. That this name change did take place after appellants first wrote Addo requesting the patent license was admitted in the pretrial order [Clk. Tr. p. 536, par. 6].

### Rescission of the Patent License.

Having learned that appellants had not designed their own adding machine bearing only some similarity to Addo's patents but was in fact importing an unauthorized copy of an Addo adding machine incorporating the identical patented parts, and having further learned that Purer & Company's correct corporate name at the time negotiations were begun for the license was Tokyo Electric Company International, Addo wrote appellants on July 22, 1965 [Ex. 40], stating that it rescinded the license agreement and returned the \$1,500.00 minimum royalty payment. Addo also stated that any further attempt to import and sell the TEC adding machine in the United States would result in a suit for patent infringement.

Despite Addo's rescission of the patent license, appellants went ahead with plans to sell the TEC 7001 adding machine. And, not satisfied only with the patent infringement that these plans entailed, appellants on September 30, 1965 [Exs. 49 and 52], sent notice to adding machine dealers throughout the United States that the TEC adding machine was manufactured under a license from Addo. Addo had not licensed or authorized or approved an adding machine. It had only licensed appellants to use two patents, a license which had been rescinded more than two months before the September 30, 1965, notice to adding machine dealers. The notice stated:

“Be a ‘Winner’ and join the group of Dealers that are selling the finest Adding Machine offered today.

“With a history of FIVE Years of top sales experience, the New ‘TEC’ Adding Machine is



being introduced to the United States market at the low Retail Price of \$189.50—with a full 40% profit to you.

“All ‘TEC’ Machines sold on a Money-Back, Unconditional Guarantee, with a THREE Year ‘Free’ Parts Warranty.

“This New ‘TEC’ Machine is manufactured under License Agreement, dated April, 1965, between the A. B. Addo Company of Malmo, Sweden, and Purer & Company, which agreement authorizes us to manufacture and sell these machines under Letters of Patent U.S. 2854190—2985363.

“Please call or write for full particulars and demonstration. Models AM 7002 and 7003—December delivery.”

Addo Machine Company received immediate inquiries from its dealers throughout the country demanding to know if Addo was authorizing the production of a copy of its adding machine [Rep. Tr. p. 283].

On or about October 8, 1965, an Addo dealer purchased two of the TEC 7001 adding machines from appellants [Ex. 66, Rep. Tr. pp. 410-412]. An examination of the TEC machine confirmed that it was the Japanese made copy of the Addo 341-E adding machine.

During the course of trial the Addo Model 341-E [Ex. 6] adding machine and the infringing adding machine [Exs. 67 and 70], which was advertised by appellants as the TEC 7001 adding machine [Ex. 33] were admitted in evidence. The TEC 7001 adding ma-

chine imported and sold by appellants had a metal plate attached to the back of it identifying it as the Toshiba BC 4011 adding machine.\*

The service manager for Addo Machine Company's western wholesale distributor, called as a witness by Addo, disassembled the infringing machine and the Addo adding machine and transferred more than 300 parts from one machine to the other [Rep. Tr. pp. 375-394]. This transfer graphically demonstrated the virtually complete interchangeability of the parts of the two adding machines. During the course of the demonstration, the service manager also demonstrated that the parts in the Addo adding machine were considerably more durable than those in the infringing machine [Rep. Tr. pp. 380-382]. Despite the fact that the infringing machine is a virtually exact mechanical copy, its inferior materials cause its operation to be set at the rate of 149 cycles a minute, rather than the 176 cycles a minute of the Addo adding machine [Rep. Tr. pp. 368-370].

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\*Appellants' summary of argument (Op. Br. p. 29) confuses greatly, by purpose or inadvertence, the relationship of the various adding machine model numbers. When Addo first learned that a Japanese copy of the Addo adding machine was being manufactured, it was informed that the copy bore the Toshiba model number BC 4001 [Exs. 7 and 8]. The adding machine imported by appellants bore the Toshiba model number BC 4011 and was advertised by appellants as the TEC AM 7001. The mechanisms of the 4001, 4011 and 7001 are one and the same, a copy of the Addo 341E mechanism. The model numbers are irrelevant.

## ARGUMENT.

Appellants raise numerous points on appeal. Many concern the admissibility of a large number of exhibits. Other issues are the admissions made by appellant Mr. Purser, whether appellants' conduct amounted to fraud and unfair competition, whether the cause of action for trademark infringement should have been dismissed without prejudice, and whether Addo was entitled to recover attorneys fees pursuant to 28 U.S.C.A. §285.

In its complaint Addo charged appellants with patent infringement. Appellants' answer denied the validity of the patents and denied their infringement. The answer also set forth the affirmative defense of a patent license. However, because appellants admitted during the course of discovery and pretrial the validity of the patents and their infringement by appellants, the only issue remaining for trial regarding the patents was whether appellants had obtained the patent license by such fraudulent means as justified Addo's rescission. *Whether the properly admitted evidence established appellants' fraud is the basic question presented by this appeal.* This answering brief, therefore, first takes up the question of whether appellants were in fact guilty of fraud and whether there was sufficient properly admitted evidence to establish that point.

### I.

#### Fraud.

The letters in which appellants stated to Addo that appellants had done the engineering and prototype of an adding machine of their own design which bore only some similarity to Addo's patent and which was not then in production but would go into limited production



at a later date [Exs. 20, 22 and 25] were admitted in evidence without objection. The advertising brochure for the infringing machine [Ex. 33] circulated by appellants immediately after the execution of the license as well as the infringing machines sold by appellants after the license had been rescinded [Exs. 67 and 70] were likewise admitted without objection. The conclusion was inescapable that appellants did not have an adding machine that they had designed and which they thereafter proposed to produce; at the time they wrote Addo requesting the patent license, appellants intended to import an infringing adding machine which appellants knew was already in production.

Had appellants wished to controvert this evidence and the unavoidable conclusions to be drawn from it, they were free to do so. Appellants offered no evidence. Instead, appellants cite numerous cases for the proposition that the proof must be clear and convincing to support the conclusion that a fraud has been perpetrated.\* However, appellants present no argument that the statements they made to Addo were anything but clearly and convincingly fraudulent. Appellants simply ignore these statements. Appellants both ignore the fraudulent statements and “the rule that where an appellant claims the findings, or any particular finding, is not sustained by the evidence, he is required to set forth in his brief all of the material evidence and not

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\**Cardozo v. Bank of America*, 116 Cal. App. 2d 833, 837, 254 P. 2d 949 (1953) cited by appellants (Op. Br. p. 52) for the proposition that there can be no actual fraud without an intent to deceive was expressly disapproved on that point in *Gagne v. Bertran*, 43 Cal. 2d 481, 488, 275 P. 2d 15 (1954). The law in California is that a statement is fraudulent when made with intent to induce the recipient to alter his position to his injury or risk. *Gagne v. Bertran*, *supra*.

merely his own evidence. . . . If it is not done, the error is deemed waived.” *Gold v. Maxwell*, 176 Cal. App. 2d 213, 217, 1 Cal. Rptr. 226 (1959).

Except for the conclusory allegation that appellants’ statements to Addo were not fraudulent (Op. Br. p. 57), appellants ignore these statements. Instead, appellants argue that Addo was given notice of appellants’ intention to import the infringing machine and that Addo had a duty to investigate appellants as a prospective patent licensee. Turning to these two contentions:

**1. Appellants’ Alleged Notice.**

Appellants contend that Addo was given notice of appellants’ intention to import the Japanese copy of the Addo adding machine and that the notice was sufficient to require Addo to undertake an investigation of its prospective licensee. This argument ignores the geographical relationship of the parties, assumes that a person in Sweden is unjustified in relying on the representations of a person in California and, despite a distance of 8,000 miles, has readily available the means of an independent investigation.

The basis of appellants’ claim of sufficient notice to Addo is the letterhead stationery on which the request for a patent license was written. This claim was specifically rejected by the trial court [Rep. Tr. pp. 456-458].

Appellants’ stationery bore at the top the legend PURER & COMPANY. The correct corporate name on the date appellants first wrote to Addo, November 27, 1964, was Tokyo Electric Company International, a fact that was very definitely concealed from Addo by the appellants’ letterhead stationery.

At the bottom of appellants' letterhead stationery is a picture of a long, low building beneath which appears the phrase "New Modern Facility in Ohito." The picture of the building is printed in tones sufficiently light that typing or writing over it will be easily legible. On the face of the building in small print, four points or less in type size, appears the blurred legend "TEC" or "TEO." According to appellants' opening brief, adjacent to the legend "TEC" or "TEO" are four "clearly visible" Japanese ideographs (Op. Br. p. 20). If, in fact, they are Japanese ideographs, they are not legible. The legend "TEC" or "TEO" is also so blurred that, unless one's attention is directed to it, it would not be noticed. In cross-examining Addo's president, Gunnar Agrell, appellants' attorney asked if Mr. Agrell had looked at the photograph at the bottom of appellants' letterhead stationery. Despite the fact that he received an unequivocal "no" in answer to the question, appellants' attorney then asked:

"Q. Now, in looking at your picture, or looking at the letter, did you notice on the picture of the factory the word 'TEC'? A. No.

Q. You didn't notice that all? A. No. I am not using magnifying glasses when reading letters." [Rep. Tr. p. 187].

Appellants argue that the president of Addo had heard of Tokyo Electric Company and TEC prior to the time he received appellants' letter of November 27, 1964 (Op. Br. p. 54). As authority for this statement appellants cite pages 185 and 257 of the Reporter's Transcript. At page 185 appellants' attorney read into the record a portion of an affidavit by Addo's president in which the name Tokyo Electric Company ap-



peared. The affidavit was prepared on November 1, 1965, almost one year after appellants' first letter to Addo. At page 257, appellants' attorney read into the record a portion of the deposition of Addo's president which was taken on December 30, 1966:

“Mr. Fairfield: Prior to the date of Exhibit D you knew that the Tokyo Electric Company was engaged in, among other things, the business of manufacturing adding machines?”

“Mrs. Flesch: I object to that as being a leading question.

“Mr. Agrell: Yes, it did, under the name of Tokyo Denki.”

Appellants assert in their opening brief that because the president of Addo knew the name Tokyo Electric Company or “TEC” at the time he executed the affidavit of November 1, 1965, and at the time his deposition was taken on December 30, 1965, he, therefore, had knowledge of the name of Tokyo Electric Company or “TEC” at the time he received appellants' letter of November 27, 1964. Appellants ignore the following testimony of Addo's president:

“Q. Now, once again, prior to April 1, 1965, had you ever heard the name Tokyo Electric Company? A. No.

Q. Or the name ‘TEC’? A. No.” [Rep. Tr. pp. 251-252].

The testimony by the president of Addo is without contradiction that he did not learn of the name “TEC” until he received the brochure for the infringing adding machine which was mailed to him on June 17, 1965 [Ex. 31], or until he received Mr. Purer's letter of June 25, 1965 [Ex. 35], in which Mr. Purer stated:

“The manufacturer for Purer and Co. is ‘TEC,’ which is a subsidiary of Toshiba.” [Rep. Tr. p. 251]. The testimony is equally clear that the president of Addo never noticed the dubiously legible symbol “TEC” printed on the stationery [Rep. Tr. p. 187].

The president of Addo did testify that it was possible that he observed the phrase “new modern facility in Ohito” at the bottom of the stationery. The president of Addo also testified that he has never been in Japan and does not speak or read Japanese [Rep. Tr. p. 91]. Ohito is not one of the more prominent towns in Japan. It has a population of 10,016. *Columbia Lipincott Gazetteer of the World*, Columbia University Press, New York, 1961 page 1370. Ohito is not listed in the gazetteers or shown on the maps of many standard atlases. See *Encyclopedia Britannica World Atlas*, Encyclopedia Britannica, Inc., Chicago, 1966; *Commercial Atlas and Marketing Guide*, Rand McNally & Co., Chicago, 1966; *Hammond’s Library World Atlas*, C. S. Hammond & Co., Maplewood, New Jersey, 1965.

Since Ohito is a small town and since appellants could have easily located Ohito to one in Sweden by adding “Japan”, it is understandable why the trial court made the following observation: “If that was . . . [Mr. Purer’s] intention to convey that . . . [information], he could have at least have said ‘Japan.’” [Rep. Tr. p. 458].

To expect a person half-way around the world from Japan to know that Ohito is a Japanese city, when the word “Japan” has been left off, inadvertently or pur-

posely, and also to know that the word “TEC” on the plant stood for Tokyo Electric Company (a company unknown to the president of Addo at that time), is unreasonable.

## 2. Addo's Duty to Investigate.

Appellants further argue that Addo had the duty to undertake an independent investigation of its prospective licensee and that Addo's reliance on appellants' representations were unjustified.

“A defendant who misrepresents the facts and induces the plaintiff to rely on his statements should not be heard in an equitable action to assert that the reliance was negligent unless plaintiff's conduct, in the light of his intelligence and information, is preposterous or irrational.”

*Van Meter v. Bent Construction Co.* 46 Cal. 2d 588, 595, 297 P. 2d 644 (1956).

A party guilty of an intentional fraud may not set up a defense of the defrauded party's negligence. *Carroll v. Dungey*, 223 Cal. App. 2d 247, 257, 335 Cal. Rptr. 681 (1963). The law in California is that “when contracting parties are adverse to each other, either has the right to rely upon an express statement made by the other of an existing fact of which the truth is known to the other and unknown to him.” *Calmon v. Sarraile*, 142 Cal. 638, 642, 76 Pac. 486 (1904); *London v. Guberman*, 214 Cal. App. 2d 215, 220, 29 Cal. Rptr. 279 (1963); *Stevens v. Marco*, 147 Cal. App. 2d 357, 378, 305 P. 2d 669 (1956).



Appellants rely on the case of *Oppenheimer v. Clunie*, 142 Cal. 313, 75 Pac. 899 (1904), for the proposition that a licensor has the duty to investigate a prospective licensee. The *Oppenheimer* case is not in point. Plaintiff there attempted to rescind a lease of a theater five months after the plaintiff had entered into occupancy of the leased premises. The grounds of the claimed rescission were that defendant had failed to inform plaintiff of the inadequacy of exits in the balcony of the leased theatre. The court held that the lessee, having been in possession for five months, was assumed to know the location and size of the exits because they "were patent to anyone." 142 Cal. 317. Such is not the instant case. In this case appellants did not inform Addo of their intention. On the contrary, appellants took great pains to conceal their true intention. When Addo discovered appellants' intention, Addo promptly rescinded the license.

The evidence before the trial court established that appellant Philip Purer had prior business dealings with the Japanese manufacturer of the infringing machine and had been informed by the Japanese manufacturer that it could not allow importation into the United States of such adding machine because of Addo's patent [Rep. Tr. pp. 280-281]. Appellants thereupon made fraudulent statements to Addo claiming to have done the engineering and development work of an adding machine of their own design that bore some similarity to two of Addo's patents and that, if Addo would grant a license for the use of the patents, manufacture of



the machine would thereafter commence. The evidence was clear and convincing that these statements were untrue and allowed no other conclusion than the fact that appellants were guilty of fraud.

### 3. Evidence of Fraud.

Appellants object to the introduction of numerous exhibits admitted at trial. However, appellants did not object at trial and do not raise objection on appeal to the admission in evidence of the correspondence with Addo where appellants made the fraudulent statements, of the misleading advertising material circulated by appellants and the demonstrated identity of the Addo adding machine and the infringing adding machine. Appellants' objections relate solely to exhibits that go to peripheral issues. (For further consideration of the admissibility of other exhibits, see p. 47, *infra*.)

Appellants apparently argue that there was no admissible evidence before the court establishing that the infringing machine imported and sold by appellants had been in production for some time before appellants first wrote Addo requesting a patent license.

Addo's evidence was more than sufficient to justify the conclusion that the adding machine appellants imported and sold in the United States had been manufactured in Japan for several years prior to appellants' request for a license. It is also questionable that such a conclusion is necessary to establish appellants' fraud. Even had the infringing machine not been in production at the time appellants requested the patent license, appellants' statements would have been untrue.

Among the items of evidence establishing that Toshiba had been engaged in the manufacture of a copy of Addo's Model 341E adding machine for several years prior to November 27, 1964, are the following:

(1) Appellants' advertising materials published in 1965 claim that the infringing machine had a five-year sales history, *i.e.*, it had been for sale since 1960 [Exs. 49 and 52] and that the infringing machine had one-million satisfied users [Ex. 33].

(2) Admissions made by appellant Mr. Purer that he knew the infringing machine was in production by Toshiba before appellants applied to Addo for a license [Rep. Tr. pp. 280-281 and 341].

(3) Photographs comparing the infringing machine and the Addo adding machine taken in 1963 [Exs. 12a through h].

#### **Advertising Materials.**

Appellants made no objection to the admissibility of the advertising material that appellants circulated in 1965 [Rep. Tr. pp. 134 and 286]. The letter [Exs. 49 and 52] sent to most of Addo Machine Company's dealers at the end of September 1965, stated that the infringing machine, the 'TEC' adding machine, had "a history of FIVE years top sales experience."\* The

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\*Appellants argue (Op. Br. pp. 67-68) that Exhibits 49 and 52 do not refer to the infringing machine, the TEC 7001, but to other machines not involved in this lawsuit, the TEC 7002 and 7003 machines. Appellants ignore the admitted facts of the pretrial order that Exhibits 49 and 52 were part of the advertising campaign to sell the TEC 7001 adding machine [Clk. Tr. p. 536, Par. 11]. Furthermore, the price of the TEC 7001 is listed in Exhibits 49 and 52 as retailing at \$189.50, which includes a 40% profit to the retailer, *i.e.*, a wholesale price to the retailer of approximately \$114.00. The unit price on the invoice of Purer & Company for the sale of two TEC 7001 adding machines on

brochure [Ex. 33] distributed at the National Office Machine Dealers' Association show at Chicago in June, 1965 claimed over one million satisfied users, a claim that implies a fairly lengthy production history.

If appellants wished to impugn the accuracy or honesty of their advertising, they were free to do so by calling their own witnesses to explain the meaning of their advertising. They chose not to do so. On the contrary, appellants made no objection to the admission in evidence of their advertising materials, advertising materials which establish that the adding machines appellants imported and sold in the United States had been in production long enough to have a large number of satisfied users, even if one million was "slightly exaggerated" [Ex. 35], and a five-years sales history.

**Admissions of Mr. Purer.**

Two witnesses, George Agrell, president of Addo Machine Company, and Carl Gronhagen, president of Addo Machine Company's western wholesale distributor, testified to conversations they had with Mr. Purer before this lawsuit commenced. Mr. Agrell testified as follows:

" . . . Mr. Purer told me that he had been working with the Toshiba people and represented the

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October 8, 1965 [Ex. 66], was \$114.00. The affidavit of Phillip Purer dated December 8, 1965, has attached to it an order for a large number of TEC 7001, 7002 and 7003 adding machines, f.o.b. Japan. The 7002 machines cost \$8.50 more than the 7001 and the 7003 costs \$25.00 more, a price differential which indicates that the "five years of top sales experience" clearly refers to the TEC 7001 machine retailing at \$189.50 rather than the more expensive 7002 and 7003 models. (The affidavit of December 8, 1965, was filed in the trial court but is not part of the record on appeal. Appellees have moved concurrently with the filing of this answering brief to have the affidavit included in the record on appeal.)



TEC adding machine and that he had during—or rather in these business relations with Toshiba he had seen the BC401 machine and had expressed interest to Toshiba to import and market that machine in the United States.

He also then related that Toshiba wasn't [interested] in doing so since they may risk conflict with the patents that A.B. Addo was holding in the United States.

Mr. Purer then declared that this was the reason that he approached A.B. Addo, Malmö, in order to obtain these patents to clear the way for the import of the Toshiba machine in the United States.

. . . .

. . . I also remember that I suggested to Mr. Purer that if he went around the patent, he could possibly import the machines, but then, I said, 'You can naturally not call it an Addo licensed machine,' whereupon Mr. Purer said to me, 'That's just the problem.' " [Rep. Tr. pp. 280-281].

Appellants contend that the certainty of the testimony of Mr. Agrell was destroyed because on cross-examination, it became unclear whether it was Mr. Agrell or Mr. Purer who said the name Toshiba. That portion of the cross-examination went as follows:

"Q. . . . Now, you also recall that he did use the word 'Toshiba'? A. I used the word 'Toshiba.'

Q. Well, how about Mr. Purer'? Did he use the word 'Toshiba'? A. He probably did or didn't. To me Toshiba and Tokyo Electric were the same thing at that time.



Q. I see. I thought you were relating the conversation that Mr. Purer had had with you. A. He had said that he had visited with Toshiba.

Q. He did mention the word 'Toshiba'? A. Yes." [Rep. Tr. pp. 298-299].

Mr. Gronhagen testified as follows: "Yes. He stated that there was no doubt about it that the machine was already in manufacture at the time that he started negotiations for the license agreement." [Rep. Tr. p. 341]. Mr. Gronhagen was not cross-examined on the subject of his meeting with Mr. Purer.

Admissions of a party, although hearsay, can be received in evidence as proof of the truth of the admissions. *Cal. Ev. C. §1220, Bonebrake v. McCormick*, 35 Cal. 2d 16, 19, 215 P. 2d 728 (1950); *Kent v. First Trust & Savings Bank of Pasadena*, 101 Cal. App. 2d 361, 373, 225 P. 2d 625 (1950).

Appellants contend that the admissions, or extra judicial statements Mr. Purer made to Mr. Agrell and Mr. Gronhagen are not admissible. Appellants cite *Evis Mfg. Co. v. F.T.C.*, 287 F. 2d 831 (9th Cir 1961), *cert. den.*, 368 U.S. 824, 82 S. Ct. 43 (1961); *Pulver v. Union Inv. Co.*, 279 Fed. 699 (8th Cir. 1922), *Luria Bros. & Co. v. United States*, 369 F.2d 701 (C.C.P.A. 1966), and *Herbert v. Lankershim*, 9 Cal. 2d 409, 71 P. 2d 220 (1937). These cases do not support appellants' contention that Mr. Purer's admissions were inadmissible evidence.

The *Evis* case involved not an extra judicial admission of a party, but the testimony of the party as a witness. In this case, Mr. Purer chose not to be a witness. All the *Evis* case holds is that, had Mr. Purer

taken the witness stand, his testimony as to the conversations with Messrs. Agrell and Gronhagen both as to admissions and to self-serving declarations would be admissible.

In the *Pulver* case, testimony was admitted that a representative of defendant had asked why plaintiff had pursued a certain course of conduct. Plaintiff stated, "You did not perform your contract." Defendant's representative made no statement in reply to this remark and the failure of defendant's representative to reply was held by the trial court to be admissible as an admission against interest. The Court of Appeals held that silence under the circumstances could not be construed as an admission against interest. In this case, silence is not the admission. Mr. Purer was quite voluble in his statement that the infringing machine had been in production and that he had seen it in production well before the time that he applied for a patent license.

The *Luria* case is not a question of an admission against interest. The testimony in question was a statement by an employee of the plaintiff estimating the loss incurred by plaintiff. The Court of Appeals, basing its decision "on the record as a whole and the court's knowledge and experience in such cases" reduced the estimated loss from 30 percent of the total contract cost to 20 percent. The court pointedly observed that the "witness' testimony is not rebutted" and could not be wholly rejected even though his estimate of damages was made as the employee of an interested party. In this case, the testimony of Mr. Agrell and Mr. Gronhagen does not concern estimates. Their testimony is direct and uncontradicted to the effect that Mr.

Purer informed each of them that the adding machine appellants proposed to import and sell had been in production at the time appellants first applied for the patent license.

The *Lankershim* case is equally inapposite for appellants' contentions. The holding of the *Lankershim* case, one of the more colorful cases in California legal history (See, Donald W. Hamblin, *Colonel Lankershim's Note*, 42 Los Angeles Bar Bulletin 314, May 1967) is that the credibility of witnesses appearing in a jury trial is not only a matter for the determination of the jury but can also raise a question of law for the court whether the testimony was inherently improbable. In this case there was no jury. Trial was to the court and the court stated:

"I believe in that connection that Mr. George Agrell was telling the truth with respect to the conversation with Mr. Purer in September of 1965 in New York, and if Mr. Purer had any contrary account of that meeting, it behooved him to say so." [Rep. Tr. p. 458].

The *Lankershim* case is worthy of note for its holding that the trial court erred in refusing to allow testimony regarding a statement that could be construed as an admission by the plaintiff. "This ruling was prejudicial error. In the first place, it was a declaration against the whole theory of plaintiff's case . . ." 9 Cal. 2d at 464.

Although appellants assert that the statements attributed to Mr. Purer regarding the prior manufacture of the infringing machine cannot be true, because he "never could have received this information from Toshiba" (Op. Br. p. 49) there is no testimony to sup-



port this contention. On the contrary, the testimony [Rep. Tr. pp. 280-281 and 341] was clear, consistent and definite that Mr. Purer on at least two occasions admitted that the infringing machine was in production at the time appellants applied for the patent license and admitted that he had seen it in production.

In *Kent v. First Trust and Savings Bank*, *supra*, plaintiff claimed that testimony as to his prior acts and statements in fraudulently obtaining a contract were inadmissible. On appeal the court held the evidence admissible because “it tended to indicate a guilty knowledge.” 101 Cal. App. 2d at 373. That is what Mr. Purer’s express admissions clearly indicated.

Appellants further contend that the testimony of Mr. Gronhagen regarding conversations with Mr. Purer should not have been admitted because appellants had sought by interrogatory to learn the substance of these conversations [Clk. Tr. p. 486] and, when the interrogatories were not answered fully, appellants’ motion, made two months before commencement of the trial to have the testimony of Mr. Gronhagen excluded, was denied.

Appellants state that “the trial court refused to allow discovery proceedings to determine what was said” in the conversations between Mr. Gronhagen and Mr. Purer (Op. Br. p. 50). The statement is not correct. The court, ruling on appellants’ motion to preclude the testimony of Mr. Gronhagen, which ruling was made nearly two months before the commencement of the trial, held that appellants could not demand a detailed description by answers to interrogatories of a prospective witness’ testimony [Rep. Tr. of Dec. 12, 1966, p. 6]. The ground for such holding was that a detailed



description of a conversation would constitute an improper effort to limit a party's flexibility in the conduct of the trial. *United States v. Renault, Inc.*, 27 F.R.D. 23, 29 (S.D. N.Y. 1960), *Central Hide & Rendering Co. v. B.M.K. Corp.*, 19 F.R.D. 294 (D. Del. 1956).

Mr. Gronhagen was first identified by Addo as a prospective witness in answers to appellants' interrogatories that were served and filed on March 31, 1966 [Clk. Tr. p. 274]. Appellants were free to take Mr. Gronhagen's deposition at any time before the trial. Indeed, when shortly before the pretrial hearing appellants were given the name of an additional prospective witness, appellants reserved the right at the December 12 pretrial hearing to take the deposition of that prospective witness a few days before the trial. Appellants could have requested the same permission to depose Mr. Gronhagen.

#### **The Photographs.**

Appellants argue at length that the photographs taken at Addo's laboratories [Rep. Tr. p. 48] in Sweden and sent to its agent in Japan in 1963 [Ex. 14], comparing the Addo adding machine and the infringing machine should not have been admitted. Appellants contend that the photographs were secondary evidence and that the original adding machine should have been used. Appellants have completely missed the point for which the photographs were offered and received in evidence. The court had before it the Addo adding machine and the infringing machine [Exs. 6, 67 and 70]. The court by comparing the photographs and the adding machines that were admitted in evidence could readily determine that the photographs were of the same model adding machines as were physically before

the court. The obvious conclusion was that the infringing machine was being manufactured when Addo took the photographs and sent them to its agent in Japan in 1963.

## II.

### Unfair Competition.

The evidence established that appellants, after they had been notified of the rescission of the patent license, continued to import and sell the infringing machine [Exs. 66, 67 and 70] and advertised that the manufacturer of the machine was authorized by Addo [Exs. 49 and 52]. The judgment of the trial court permanently enjoins appellants advertising or claiming that appellants are in any way connected with Addo or Addo Machine Company.

Appellants' right to import and sell adding machines incorporating the inventions disclosed in Addo's patents having ceased upon the rescission of the license agreement, appellants continued use of Addo's patents, constituted unfair competition within the meaning of 28 U.S.C.A. §1338(b). *Pursche v. Atlas Scraper & Engineering Co.*, 300 F. 2d 467, 483 (9th Cir. 1962) *cert. den.* 371 U.S. 911, 83 S. Ct. 251 (1962).

Appellants' unfair competition went further than the continued use of the patents they were no longer entitled to use. Appellants, after the license was rescinded, represented [Exs. 49 and 52] that they were selling an Addo licensed adding machine. Even when the license agreement was in effect, appellants could not claim that the manufacture of the entire adding machine that was imported and sold by appellant was done so pursuant to license from Addo. All that Addo had ever purported to

authorize appellants to do was to use the two patents for parts in an adding machine designed by appellants, not to authorize appellants to build an adding machine. Such representation was misleading advertising and constituted unfair competition in that it was an attempt to appropriate Addo's trade name and to inform Addo adding machine dealers that by handling the infringing machine they would be able to use the trained service personnel, the tools and the parts that were used in the servicing and repair of Addo's adding machine. As was held in *Hanson v. Triangle Publications*, 163 F. 2d 74, 78 (8th Cir. 1947), *cert. den.* 332 U.S. 855, 68 S. Ct. 387 (1947) and quoted approvingly in *Stork Restaurant v. Sahati*, 166 F. 2d 348, 355 (9th Cir. 1948):

“Under present general law, the use of another's names or name, even in a non competitive field, where the object of the user is to trade on the other's reputation and goodwill, *or where that necessarily will be the result*, may constitute unfair competition. [Cases cited.]”

Advertising such as that employed by appellants which states or suggests that the one advertising possesses the goodwill of one well known in business when such is not the fact, constitutes unfair competition. *Metro-Goldwyn-Mayer, Inc., v. Lee*, 212 Cal. App. 2d 23, 29, 27 Cal. Rptr. 833 (1963), *Hoover Co. v. Groger*, 12 Cal. App. 2d 417, 419-420, 55 P. 2d 529 (1936).

Appellants contend that there could be no cause for unfair competition, ignoring that patent infringement in itself is unfair competition, because Addo gave no proof that its name had acquired a secondary meaning. The evidence established that Addo has been in busi-



ness since 1918 [Rep. Tr. p. 12], sells its products throughout the world [Rep. Tr. p. 14] and, with its subsidiaries and authorized agents, is the exclusive user of the name Addo [Rep. Tr. p. 166]. The evidence further established that Addo Machine Company has devoted a substantial sum to advertising and publicity in recent years [Ex. 48; Rep. Tr. p. 269].

However, appellants have misunderstood the nature of the claim of unfair competition by Addo and Addo Machine Company. It was not that appellants were engaged in palming off their infringing machine as being the Addo adding machine because of a confusing similarity in the external appearance of the machines or by affixing to the infringing machine Addo's trademarks "Addo" and "Addo-X" [Clk. Tr. pp. 23 and 24]. The gravamen of the claim of unfair competition in this case is that appellants were engaged in holding themselves out as possessing something they did not possess, *i.e.*, that they possessed the goodwill of Addo, that they were the importers and sellers of an adding machine in some manner authorized or approved by Addo and that they were the holders of a patent license from Addo. These representations were made, not to the consuming public at large, but to Addo's customers, the dealers in adding machines. These dealers could readily ascertain that appellants' infringing machine was so exact a copy of the Addo adding machine that they would be able to use the personnel trained in schools sponsored by Addo Machine Company and would be able to use the special tools and the stocks of parts used in the servicing of Addo adding machines. This is the kind of conduct which was held enjoinable unfair competition in *Upjohn Co. v.*



*Schwartz*, 246 F. 2d 254 (2d Cir. 1957). In the *Upjohn* case the court stated:

“The court is of the opinion that the record herein supports the conclusion that the . . . [advertising materials] in question when distributed to druggists and pharmacists were to be used as guides for substitution and that defendant intended such use. . . .

In *Zangerle & Peterson Co. v. Venice Furn. Novelty Mfg. Co.*, 7 Cir., 1943, 133 F.2d. 269, Judge Minton expressed a rule of unfair competition which is applicable to the facts of the case at bar. The law permits the copying of an article of merchandise that is not covered by a valid patent, if the copying party ‘does not represent the copies as the product of the party making the original and does nothing in the merchandising of the goods to induce (his) customers to engage in ‘palming off’ or to indicate to them how they may ‘palm off’ the copy as the product of the original maker.’ . . .

An unfair course of dealing, *even without proof of an established secondary meaning*, constitutes unfair competition.” 246 F. 2d at 261.

Appellants’ unfair competition consisted of advertising as true that which was untrue in an effort to appropriate part of the business and goodwill of Addo and Addo Machine Company. Appellants are free to compete. They can sell any kind of adding machine so long as they do not infringe patents, but they cannot unfairly compete either by infringing patents or by infringing the goodwill of Addo and its authorized United States distributor, Addo Machine Company. Both the facts

of this case as they relate to unfair competition and the scope of the injunctive relief granted are very similar to the facts and relief in *Volkswagenwerk, G.m.b.H. v. Frank*, 198 F. Supp. 916 (D. Colo. 1961). See *Ford Motor Co. v. Benjamin E. Boone, Inc.*, 244 Fed. 335, 338 (9th Cir. 1917).

### III.

#### Dismissal of Trademark Infringement Claim.

The second cause of action in the complaint was one for trademark infringement. Addo is the owner of the registered trademarks “Addo” and “Addo-X” written in a cursive script [Clk. Tr. pp. 23-24]. During the course of discovery it became apparent that appellants, notwithstanding their other unlawful activities, had not infringed the trademarks. Appellants had represented to adding machine dealers that they had a license from the Addo company but they had not used “Addo” or “Addo-X” on their adding machines or in their advertising materials in that style of script for which Addo is the owner of the trademark. When discovery revealed the absence of trademark infringement, the pretrial conference order drafted by Addo’s attorneys did not include trademark infringement as an issue and at the pretrial conference the claim of trademark infringement was dismissed without prejudice.

Appellants argue that the trademark infringement cause of action should not have been dismissed without prejudice. Instead, appellants contend that the court should have ordered the United States Patent Office to cancel the trademarks and remove them from the trademark register. The trial court acted within its discretion in dismissing without prejudice the trademark infringement cause of action. The purpose of discovery

and of pretrial procedures is to define and narrow the issues in a lawsuit. That is exactly what happened in this case.

In dismissing the trademark infringement cause of action without prejudice, the trial court acted within its discretion pursuant to Fed. R. Civ. P. 16 and 41(a) (2). Although there is a split in authority as to whether the provisions of F. R. Civ. P. 41 apply to a single cause of action as distinguished from the entire complaint, the better view is that it does apply to a single cause of action. See, *Johnson v. Cartwright*, 355 F. 2d 32, 39 (8th Cir. 1966), 5 *Moore's Federal Practice* 41.06.1, p. 1087 (2d ed. 1966).

Appellants' attorney contended at the pretrial conference that appellants should be awarded their attorney's fees in opposing the trademark infringement cause of action. The trial court at that time stated that it would take into consideration the work done by appellants' attorney in opposing the trademark infringement cause of action. After trial at the hearing on appellants' motion for a new trial and to amend findings of fact and conclusions of law, the trial court stated that appellants might have been entitled to some attorney's fees for the work done in opposing the trademark infringement cause of action but that such fees, if any, were more than offset by Addo's attorneys' fees incurred in resisting the motion for new trial and to amend findings of fact and conclusions of law [Rep. Tr. of May 29, 1967, p. 519]. Clearly, the court was aware of its discretionary authority under Fed. R. Civ. P. 41(a)(2) and, leaving exercised its discretion, the judgment of dismissal is not reversible on appeal. *American Cyanamid Co. v. McGhee*, 317 F. 2d 295, 298 (5th Cir. 1963).



IV.

**Patent Infringement and Attorneys' Fees.**

Appellants' final contention is that this was not a suit for patent infringement but merely a suit for rescission of a contract. This ignores the judgment that was rendered. If this suit had been only a contract suit, the judgment could have been nothing more than a declaration that the contract, the patent license, was rescinded. That is neither the relief that Addo sought nor the relief that Addo obtained.

Addo sued for patent infringement claiming its patents valid and infringed. The patent infringement cause of action [Clk. Tr. pp. 2-4] was pleaded in the complaint in the manner set forth in Form 16 of the Appendix of Forms to the Federal Rules of Civil Procedure. Appellants answered the complaint by denying validity of the patents, denying infringement and affirmatively claiming a patent license. Before trial, appellants conceded the validity of the patents and conceded that appellants were infringing the patents. But, that does not change the fact that appellants were free to contest the validity of the patents or contest the infringement of the patents. Had appellants chosen to do so, the burden was upon appellants to establish either the invalidity of the patents or their non-infringement by appellants. 35 U.S.C.A. §282, *John Deere Co. of Kansas City v. Graham*, 333 F. 2d 529, 530 (8th Cir. 1964), *aff'd*. 383 U.S. 1, 86 S. Ct. 684 (1966); *General Tire & Rubber Co. v. Watkins*, 326 F. 2d 926, 928 (4th Cir. 1964), *cert. den.* 377 U.S. 909, 84 S. Ct. 1166 (1964); *Davis v. Buck-Jackson Corp.*, 230 F. 2d 655, 656 (4th Cir. 1956), *cert. den.* 351 U.S. 950, 76 S. Ct. 846 (1956); *N.S.W. Co. v. Wholesale Lumber*



& Millwork, Inc., 123 F. 2d 38, 41 (6th Cir. 1941); *Tate v. Baltimore & Ohio R.R. Co.*, 229 Fed. 141, 143 (4th Cir. 1915). The fact that appellants waived their right to attack the validity of the patents and chose to rely solely on the claim of license does not make this case any less a patent case. *General Tire & Rubber Co. v. Watkins*, *supra*.

Appellants maintain that the question of validity of the patents is a question of law and that a court must undertake a determination of the validity of the patents before enjoining their infringement. Appellants rely on *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 86 S. Ct. 684 (1966), and *Bentley v. Sunset House Distributing Corp.*, 359 F. 2d 140, 143 (9th Cir. 1966). Both the *Graham* and *Bentley* cases were suits in which the validity of the patent was a contested issue at trial. In this case appellants chose not to contest the validity or the infringement of the patents. The patents were presumptively valid and if appellants wished to challenge that validity, they had the burden of proof. 35 U.S.C.A. §282.

Appellants further rely on *Sinclair & Carroll Co. v. Interchemical Corp.*, 325 U.S. 327, 330, 65 S. Ct. 1143 (1945). The Supreme Court there held that the trial court should not have determined that the patents were not infringed without first determining the scope of the patents. Since appellants in this case conceded both the validity and the infringement, there was no reason to determine the scope of the patents in order to determine whether the patents were infringed. The issue was not presented to the trial court because of appellants' concession of both validity and infringement of the patents.

Appellants not only maintain that this case was not one for patent infringement, appellants contend that Addo should not have recovered its attorney's fees as authorized by 35 U.S.C.A. §285. Section 285 authorizes the award of reasonable attorney's fees to the prevailing party in exceptional cases. Attorney's fees are not awarded in ordinary patent cases. Their award depends upon two things:

1. The case must have been an exceptional one involving unfairness, bad faith, or some other form of inequitable conduct on the part of the losing party, *Rohr Aircraft Corp. v. Rubber Teck, Inc.*, 266 F. 2d 613, 624 (9th Cir. 1959); *Merrill v. Builders Ornamental Iron Co.*, 197 F. 2d 16, 25 (10th Cir. 1952); *Park-In Theatres v. Perkins*, 190 F. 2d 137, 142 (9th Cir. 1951), and,

2. The trial court must specifically find that it is an exceptional case, *Binks Mfg. Co. v. Ransburg Electro-Coating Corp.*, 281 F. 2d 252, 260 (7th Cir. 1960), *cert. dismissed* 366 U.S. 211, 81 S. Ct. 1091 (1961). In this case the trial court found that appellants had been guilty of fraud in obtaining the patent license and, after the patent license had been rescinded, knowingly continued their patent infringement. The conclusion that appellants were guilty of bad faith and inequitable conduct was fully justified by the evidence before the trial court. The trial court specifically found that appellants' conduct made "this an exceptional case in which an award to Addo of its attorney's fees and expenses should be granted." [Find. of Fact 73, Clk. Tr. p. 603].

Where the basis of the trial court's award of attorney's fees has been clearly stated, the Court of Ap-

peals will not interfere with that award except upon a clear showing of abuse of discretion. *Shingle Product Patents v. Gleason*, 211 F. 2d 437, 441 (9th Cir. 1954); *Dubil v. Rayford Camp & Co.*, 184 F. 2d 899, 903 (9th Cir. 1950).

Appellants also object to the taxing of costs to include the actual travel expenses incurred in the taking of a deposition in Sweden and in bringing witnesses from Sweden and New York to California. The former rule in the Ninth Circuit has been that travel expenses are not allowed for travel beyond the area in which a subpoena of the trial court could be effectively served. *Kemart Corp. v. Printing Arts Research Lab.*, 232 F. 2d 897, 902 (9th Cir. 1956). However, the Supreme Court has more recently held that the taxation of actual travel costs is within the discretion of the trial court. *Farmer v. Arabian American Oil Co.*, 379 U.S. 227, 232, 85 S. Ct. 411 (1964). Exercising its discretion, the trial court concluded that the actual travel costs in this case were taxable costs to be assessed against appellants.

## V.

### Documents Admitted in Evidence.

Appellants complain of the admission in evidence of a large number of documents primarily on the ground that the documents in question were hearsay. However, appellants do not explain in what manner, if any, they were prejudiced by the receipt of such documents. Fed. R. Civ. P. 61 states in part:

“No error in either the admission or the exclusion of evidence and no error or defect in any ruling or order . . . is ground for granting a new trial



or for setting aside a verdict or for vacating, modifying, or otherwise disturbing a judgment or order, unless refusal to take such action appears to the court inconsistent with substantial justice.”

See, *Ginsburg v. Ginsburg*, 276 F. 2d 94, 96 (9th Cir. 1960), *cert. den.* 364 U.S. 934, 81 S. Ct. 381 (1961).

Appellants have not claimed or shown in their motion for new trial that the admitted evidence was prejudicial. If there was error in its admission, it was harmless. Furthermore, since this was a trial to the court the presumption is that if any incompetent evidence was admitted it was disregarded. As stated in *Thompson v. Carley*, 140 F. 2d 656 (8th Cir. 1944):

“In a nonjury case, the presumption is that the trial court considered only the competent evidence and disregarded all evidence which was incompetent. . . . This court will not reverse a trial court in a nonjury case for having admitted incompetent evidence, whether objected to or not, unless all of the competent evidence is insufficient to support the judgment appealed from or unless it affirmatively appears from the record that the incompetent evidence complained of was relied upon by the trial court and induced the court to make an essential finding which would not otherwise have been made.” 144 F. 2d at 660.

The basis for admission of the 1963 photographs has been previously considered (*supra*, pp. 37-38). Turning to some of the specific documents to which appellants take exception:



1. Financial Reports.

The 1966 annual report of Addo [Ex. 3] was introduced as were two documents [Exs. 4 and 48] summarizing the business records of Addo and Addo Machine Company. These documents went to the peripheral issues of the scope of the operations of Addo and Addo Machine Company and the amount that they had invested in engineering, research, advertising and publicity. Such summaries are admissible “when the original consists of numerous . . . documents, which cannot be examined in court without great loss of time, and the evidence sought from them is only the general result of the whole.” *Cal. Ev. C. §1509, In Re Cathey*, 55 Cal. 2d 679, 692, 12 Cal. Rptr. 762, 361 P. 2d 426 (1961).

2. Correspondence With Addo's Japanese Agent.

The letters to and from Addo's Japanese agent [Exs. 8, 9, 10, 11, 13, 14 and 16], were sufficiently authenticated and were admissible as an exception to the hearsay rule. The purpose of the introduction of the letters from Addo's Japanese agent was to establish the state of mind of Addo's president and explain the course of conduct that he then followed. The letters received from the Japanese agent were not offered for the truth of what they said. *Phillips v. United States*, 356 F. 2d 297, 307 (9th Cir. 1965).

Appellants also object to the correspondence with Addo's Japanese agent on the ground that no foundation or authentication was made of the letters. A foun-

dation showing Addo's receipt of the letters from the Japanese agent was laid [Rep. Tr. pp. 39-40], Addo's response to this letter [Rep. Tr. p. 42] and the ensuing chain of correspondence. When, as here, the writing was introduced not for the purpose of showing the truth of what is contained in the writing but to show reliance upon it, authentication is complete upon the showing of receipt. As stated in the comments to Section 1401 of the California Evidence Code:

“The Evidence Code defines the term [authentication] more broadly and requires all writings to be authenticated. The writing involved in the *Adamson* case was a letter that a witness claimed he had received and acted upon. Under the Evidence Code, the requirement of authentication would require a showing that the letter offered in evidence was in fact that one received and acted upon; and this is the preliminary showing that was found sufficient in the *Adamson* case.”

Appellants further question why the correspondence was in English. The answer is simply that Addo's agent in Japan was a Dutch firm and that English, not Dutch or Swedish, is the language of international commerce.

### 3. Correspondence With Tokyo Electric Company.

Appellants object to Exhibits 17, 18 and 43 which are two letters from Addo [Exs. 17 and 18] and a letter in reply from Tokyo Electric Company [Ex. 43]. The letters from Addo were authenticated [Rep. Tr. pp. 65-66] and the letter from Tokyo Electric Company was self-authenticating as a response. *Cal. Ev. C. §1420 and 1421.*

Since the letter from Tokyo Electric Company was not offered for the truth of what was stated in it, but only to show receipt by Addo of what purported to be a photograph of the new model Toshiba adding machine, there was no hearsay problem with the letter.

4. Correspondence Between Addo and Addo Machine Company.

Appellants object to what they refer to as “inter-office” memoranda. The letters [Exs. 29, 30 and 31] are letters between the president of Addo and the president of Addo Machine Company. These letters were not introduced for the truth of their contents. They were admitted for the purpose of showing the state of mind of Addo’s president.

5. Dun & Bradstreet Report.

The Dun & Bradstreet report was not admitted for the proof of its contents but only to show further information received by Addo leading to Addo’s decision to rescind the patent license because it thought it had been defrauded by appellants. The truth of the fact that Purer & Company had originally been incorporated as Tokyo Electric Company International and changed its name after commencing negotiations for the patent license was conceded in the pretrial order [Clk. Tr. p. 536].

6. Letters From Addo Dealers.

Letters from Addo dealers showing their state of mind after receiving the notice from appellants that appellants were selling what was claimed to be an Addo licensed machine were admissible. *Phillips v. Glazer*, 94 Cal. App. 2d 673, 676, 211 P. 2d 37 (1949).

### 7. The Evidence Supports the Findings.

Appellants argue that the findings of fact are not supported by the evidence before the trial court (Op. Br. Appendix B). The arguments set forth in Appendix B are the same as those set forth in appellants' motion for a new trial [Clk. Tr. pp. 693-707]. For the most part they repeat appellants' objections to documents and objects received in evidence. Appellees filed a memorandum in the trial court opposing appellants' motion [Clk. Tr. pp. 722-726] and the motion was denied by the trial court [Rep. Tr. pp. 507-517]. Appellants have not raised new matters in their argument that the findings are not supported by the evidence and appellees rely upon their memorandum opposing the motion in the trial court and upon the ruling of the trial court. Appellees' memorandum includes citations to the reporter's transcript and to the exhibits as required by Rule 18(3) of the Rules of the United States Court of Appeals for the Ninth Circuit.

### Conclusion.

Appellants attack the judgment of the trial court entered after:

1. The court had heard three days' testimony consisting of 427 pages of reporter's transcript.
2. The court had examined more than 70 documents and objects.
- 3 The court had observed the interchange of parts of the Addo machine and the infringing machine and the operation of the "mongrelized" machines.
4. The court had conducted a post trial hearing and reviewed affidavits in determining the amount of attorney's fees awarded Addo.



5. The court heard and denied appellants' motion to amend the findings of fact and conclusions of law and for a new trial.

The evidence before the trial court justified the conclusion that appellants had not done the engineering or prototype of their own design of adding machine which would go into production at some later date. On the contrary, the evidence amply supported the conclusion that appellants intended to import and sell the infringing machine as they, in fact, did and that appellants deliberately lied to Addo to obtain the patent license. This conclusion was not merely justified by the evidence, it was inescapable. If appellants knew of any evidence to the contrary, they were free to present it to the trial court. Appellants called no witnesses and offered no testimony on their own behalf at trial.

Nevertheless, appellants now urge the Court of Appeals to reexamine the evidence, the findings of fact and conclusions of law and arrive at a contrary judgment. The Court of Appeals has forcefully stated its position that this is not its function. *General Cas. Co. v. School Dist. No. 5*, 233 F. 2d 526 (9th Cir. 1956), quotes approvingly from *Cleo Syrup Corp. v. Coca-Cola Co.*, 139 F. 2d 416, 417 (8th Cir. 1943) *cert. den.* 321 U.S. 781, 64 S. Ct. 638 (1944), to the effect that:

“This Court, upon review, will not retry issues of fact or substitute its judgment with respect to such issues for that of the trial court. [Citing cases.] The power of a trial court to decide doubtful issues of fact is not limited to deciding them correctly. [Citing cases.] In a non-jury case, this court may not set aside a finding of fact of a trial

court unless there is no substantial evidence to sustain it, unless it is against the clear weight of the evidence, or unless it was induced by an erroneous view of the law. [Citing cases.]” 233 F. 2d at 527-528.

In this case the trial court heard the testimony of the witnesses and stated specifically that it believed the testimony of one particular witness as to the conversations with appellant Mr. Purer [Rep. Tr. p. 458]. Having had the opportunity of observing the demeanor of the witnesses and of hearing their testimony, the judgment of the trial court should not be set aside. *Tonkoff v. Barr*, 245 F. 2d 742, 750 (9th Cir. 1957).

Because the evidence clearly supported the judgment, appellees respectfully submit that the judgment of the trial court should be affirmed. Appellees further request that the Court of Appeals award Addo its attorney’s fees incurred in this appeal, *Laufenberg, Inc. v. Goldblatt Bros., Inc.*, 187 F. 2d 823, 825 (7th Cir. 1951), or that the trial court be instructed to award such attorney’s fees. *Brennan v. Hawley Products Co.*, 98 F. Supp. 369, 370 (N.D. Ill. 1951).

Respectfully submitted,

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### **Certificate.**

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

FRANKLIN H. WILSON

